



Portfolio Update – 2024
By Rudi Filapek-Vandyck and the Vested Team

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ALL-WEATHER PORTFOLIO

2024

(year to December)

UPDATE



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All Weather Model Portfolio

2024 Highlights		2024 Lowlights		5 Years Highs		5 Years Lows	
TechOne	103.70%	IDP Education	-36.90%	WiseTech Global	329.20%	IDP Education	-11.80%
Hub24	93.40%	Dicker Data	-29.60%	Hub24	317.10%	Woolworths	-6.60%
Aristocrat Leisure	67.50%	Woolworths	-18.00%	NextDC	167.90%	Telstra	2.30%

As is custom this time of the year, financial media are busy reporting on what happened in financial markets in 2024 while strategists and forecasters of all kinds are trying their best to predict what 2025 might look like.

If recent weeks are any indication, the new year might inject new dynamics into market narratives with potentially major impacts on the trajectory ahead.

As far as the FNArena-Vested Equities All-Weather Model Portfolio is concerned, 2024 finished on a weak note, albeit less negative than the broader market overall, but the year's return still exceeded 20%, for the second year in succession. As a matter of fact, total return ex fees has been above 20% in three out of the past four calendar years, and in four out of the past six years.

It goes without saying, the ASX200 hasn't performed nearly as good, even taking into account large dividends and a surprisingly strong performance from the banks last year.

The performances mentioned in the column above are simple share price calculations for the financial year to December 31st and for the past five financial years combined. Percentages do not include dividends or costs or any allocation changes made and thus do not equal the respective contributions to Portfolio returns for those periods.

So what does this tell us? Have I just been promoted to Grand Emeritus Stock Picker of Australia or is there a simpler, and potentially more important, story at hand?

2024, Year Of Momentum

I continue to believe it is the latter. Which is why I highlight the four times 20%-plus returns (ex fees) in the past six calendar years. As humans, we all like to attach any signs of success to our own effort and talents, but ultimately in investing everything relates to what markets decide to do, including the many dark and opaque forces underneath them.

This realisation strengthens further if we realise only a smidgen above half of all ASX200 stocks managed to put in a positive performance last year and even less outperformed the index. From a stock picker's perspective, the odds very much favoured disappointment more so than success, unless one had employed a specific momentum-following strategy.

The All-Weather Model Portfolio basket includes a number of last year's Winners, with all of Hub24 (HUB), Goodman Group (GMG), Macquarie Group (MQG), REA Group (REA), ResMed (RMD),

TechnologyOne (TNE), Wesfarmers (WES) and WiseTech Global (WTC) significantly outperforming the broader market.

The Portfolio did not target specific market momentum; the consistent flow in fresh investment funds just happened to look favourably upon many of our holdings. According to quant analysis, Momentum was the number one performing factor in 2024.

Being lucky is part of what makes markets both fascinating and unpredictable, but luck in itself is too shallow an explanation for the returns achieved with a Portfolio that also includes Telstra (TLS) and others for specific dividend/income purpose plus a standard exposure to gold as insurance.

The Broader Narrative

Maybe the answer becomes more obvious when we include the performance of a dedicated fund manager such as Hyperion's Australian Growth Companies Fund, whose strategy aims to identify high quality companies, of all sizes, with strong organic growth perspectives and a sustainable competitive moat.

Readers familiar with the philosophy and research focus that drive the All-Weather Portfolio will have no difficulty spotting the obvious overlap, and guess what? Hyperion's performance numbers exhibit the same underlying trend, as shown in the annual performance numbers below:

Calendar year total returns (net of fees):

2024	33.8%
2023	23.5%
2022	-21.2%
2021	16.3%
2020	33.3%
2019	30.6%

The interesting add-on insight here is the Fund only managed to outperform its benchmark --the ASX200 Growth Index plus 3%-- in three of the past six years; the past two years included.

Add the fact many traditional 'value'-oriented investment styles have found it challenging to even keep up with the local index and it's hard to maintain the view that nothing has changed over the past decade or so, or that changes that have occurred in the real world shouldn't impact financial markets.

Nothing Stays The Same

Let's step aside and consider what has changed for global markets:

- the underlying trend for global economic growth remains weaker than in the past, now also affecting prior high growth areas such as China

- bond yields have been below average, though that might be in the process of 'normalising' because of post-covid inflation

- the world remains awash with liquidity and central bankers are well aware of the importance of maintaining it for financial markets' stability

- a growing importance of technology, also shown through the emergence of multiple megatrends, with more to follow

- the emergence of businesses that operate on higher margins, with better financial metrics, superior market power and with less capital requirements
- existential struggles for multiple old economy sectors including free-to-air TV, print media, and fossil fuel vehicles
- a genuine technological revolution, AI, offering the promise of a brave new world
- global debt is equally accumulating at rapid pace and it remains as yet an open question if/when/whether and how this can ever be addressed

The list above is not finite, with obvious omissions demographics and fresh geopolitical and political trends, but the one important factor that is too often ignored by the financial Kommentariat is the outperformance of yesteryear's Winners can be explained by their superior earnings growth profile over the laggards where growth is often dismal, unreliable or simply lacking.

The current set up for the Australian share market, ahead of the February reporting season, is a prime case in point. Consensus forecasts suggest EPS growth for the year to June 2025 will only be 0.7% on average.

Analysts at Citi, who are modeling below-consensus forecasts for the Resources sector, are positioned for 0.5% growth only.

Analysts at Macquarie are even more negative regarding this year's EPS outlook for Resources, hence their EPS growth average for Australia is in the negative for the third year in a row at -2.1%.

Note these numbers include many of last year's Winners that often are growing at double-digit pace, and have been for years. Australia's average EPS growth has been negative for the two prior financial years.

While prospects might improve for the years ahead, with consensus currently projecting 7% growth for FY26 and 5% for FY27, history tells us these numbers are likely to prove too high when the moment of delivery arrives.

Nonetheless, there is risk that forward-looking investors decide to buy first and re-assess later. Many are today counting on a broadening of positive market momentum and the outlook for better earnings growth might well fit into this desire.

(To not over-complicate things, I am ignoring any potential flow-on impact from trends and potential changes in the US where the set-up is comparable, though sufficiently different nevertheless.)

2025 Will Be Different

Things in financial markets are never 100% straightforward; or if they are, they never stay that way for long.

Within this context, we should also note those strong outperformances from Growth and Technology stocks have been interrupted with relative underperformances in two out of the past six years, with the global bond markets' reset of 2022 the most memorable (The ASX200 including dividends managed to eke out a small gain that year with cyclical Energy the best performing sector).

Two years of significant outperformance by a select group of Winners has created never before witnessed valuation gaps between Winners and Laggards, be they US equities versus the rest of the world, or Growth and Technology versus Value and Cyclical, or Megacap companies versus smaller caps.

Relative to government bonds, valuations for outperforming equities also seem high by historical norms. The outperformance of Momentum throughout 2024 suggests concentrated portfolio positioning.

While there are to date no signs earnings momentum is picking up noticeably for lagging sectors in Australia, or that operational momentum for last year's Winners is losing steam, this can still change with the February and August results seasons ahead.

A change of heart by bond investors or radical policy changes by the incoming Trump administration in the US can equally act as a trigger for portfolio rotation, shifting momentum back in favour of assets that were largely ignored previously.

It is possible this change in underlying market dynamics has already started in the closing weeks of 2024, with bond yields on the move yet again, pushing equities trading on higher multiples towards lower multiples. Might 2025 mirror the reversal of market dynamics like what happened in late-2016 or 2022?

To account for this risk, the All-Weather Model Portfolio is more cautiously positioned at the start of 2025. The level of cash held is above 12% on reduced exposure to some of last year's Winners, but, of course, this won't necessarily prevent the Portfolio from retreating or underperforming if those stocks remain out of favour for longer.

As the Portfolio remained loyal to its rather conservative risk-management principles, exposure to last year's Winners was never oversized, which at the end of the year meant relatively small changes only needed to be made to tilt the overall positioning towards a slightly more defensive bias.

If last year's laggards are due for a notable catch up throughout 2025 then our Portfolio has plenty of exposures to participate in that process, including CSL (CSL), IDP Education (IEL) and Woolworths (WOW) plus Dicker Data (DDR), HomeCo Daily Needs REIT (HDN), and Telstra in the income/dividend segment.

The Portfolio has added Integral Diagnostics (IDX) on the likelihood for a strong multi-year outlook following the merger with Capitol Health and a changing industry context.

More changes are likely amidst fluid market dynamics for the year ahead.

Dividends & Gold

In terms of portfolio construction, the methodology behind the All-Weather philosophy includes allocating a portion to higher dividend yielding stocks as well as keeping an exposure to gold.

Regarding specific dividend allocations, the Portfolio currently owns shares in Dicker Data (DDR), HomeCo Daily Needs REIT (HDN) and in Telstra (TLS).

When it comes to gold, the preferred exposure is to the metal, through an ETF, not through listed producers to not also take on board specific company risks.

Our moto is the old adage: allocate as much to gold as you feel comfortable or uncomfortable with the world and its outlook.

The Portfolio's current gold allocation equals an average exposure to one single company.

All-Weather Model Portfolio – Performance

January – June 2015	-0.37%	
Financial years July-June 30		
FY16	14.40%	
FY17	3.16%	
FY18	17.28%	
FY19	7.38%	
FY20	5.64%	
FY21	20.72%	
FY22	-2.59%	
FY23	12.71%	
FY24	18.28%	
		Average 5 years = 10.95%
		Average 7 years = 11.35%
		Average 9 years = 10.78%
Calendar years January-December 31		
2015	7.77%	
2016	4.52%	
2017	14.43%	
2018	1.34%	
2019	22.08%	
2020	3.67%	
2021	24.63%	
2022	-7.51%	
2023	20.24%	
2024	20.33%	
		Average 5 years = 12.67%
		Average 7 years = 12.54%
		Average 10 years = 11.85%

The All-Weather Portfolio initially started on the Praemium platform but migrated to WealthO2 from the second quarter of 2020 onwards.

For the above performance table, Praemium data have been used until 30 June 2020.

All returns are unaudited and exclusive of fees and brokerage.

If you require more specific information on past or current platform performance, please send an email to your advisor.

The All-Weather Portfolio invests in High Quality, structural growers that tend to outperform over long periods of time, albeit not every single time.

Stock selections are based on proprietary research & analysis by FNArena Editor Rudi Filapek-Vandyck, also including High Quality emerging business models and Quality dividend opportunities.

Typical portfolio inclusions are Carsales, CSL, Goodman Group, Macquarie, REA Group, ResMed, TechnologyOne, Wesfarmers, WiseTech Global and Woolworths, though variations and exclusions occur from time to time.

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